



Office of the Washington State Auditor Pat McCarthy

September 16, 2019

Board of Commissioners
Whitman County
Colfax, Washington

Management Letter

This letter includes a summary of specific matters that we identified in planning and performing our financial statement and federal grant compliance audits of the Whitman County from January 1, 2018 through December 31, 2018. We believe our recommendations will assist you in improving the County's internal controls in these areas.

We will review the status of these matters during our next audit. We have already discussed our comments with and made suggestions for improvements to County officials and personnel. If you have any further questions, please contact me at (509) 329-3701 ext. 102.

This letter is intended for the information and use of management and the governing body and is not suitable for any other purpose. However, this letter is a matter of public record and its distribution is not limited.

We would also like to take this opportunity to extend our appreciation to your staff for the cooperation and assistance given during the course of the audit.

Sincerely,

A handwritten signature in black ink that reads "Alisha Shaw".

Alisha Shaw, Audit Manager

Attachment

Management Letter
Whitman County
January 1, 2018 through December 31, 2018

Procurement policies

The County spent \$1,083,444 in Highway Planning and Construction Cluster grant funds (CFDA 20.205). The County receives federal grants annually and expenditures regularly exceed the threshold to require a federal single audit.

Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires federal award recipients to establish and follow internal controls to ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established controls. Uniform Guidance also requires recipients to follow their own documented procurement procedures, which must reflect applicable state, local and federal laws. The County must follow the most restrictive of these requirements when using federal funding.

For this award, in addition to the Uniform Guidance, the County needed to follow the procurement policies in the Washington State Department of Transportation (WSDOT) Local Agency Guidelines (LAG) Manual, which referenced the federal regulations. The County has an established procurement policy that includes applicable state and local regulations; however, the policy does not include federal procurement requirements outlined in the Uniform Guidance. The County's own written procedures must conform to the federal procurement thresholds and procedures to ensure it follows the most restrictive of federal, state or local procurement methods when using federal funds.

We recommend the County update its own written procedures to address all federal procurement requirements in compliance with Uniform Guidance and ensure adequate communication of these requirements to County staff.

Financial statement preparation

County management is responsible for designing, implementing and maintaining internal controls to ensure financial statements are prepared accurately and presented fairly in accordance with the Budgeting, Accounting and Reporting System (BARS) Cash Basis Manual. During our financial statement audit, we identified deficiencies in internal controls over financial reporting. The County had procedures in place to review the financial statements, notes and supplementary schedules, but the review was not effective to detect and correct the following errors.

The County:

- Could not provide documentation to support its ending cash and investment balances reported in the financial statements, resulting in a likely understatement of ending cash and investments of at least \$199,689. This was not corrected by management.
- Misclassified beginning reserved and unreserved fund balances by \$185,359 as compared to the prior audited financial statements
- Misclassified ending reserved and unreserved fund balances by \$147,375 as compared to the general ledger
- Could not support the classification of all ending fund balances reported as reserved or unreserved in special revenue and debt service funds. Most ending fund balances are reported as unreserved. However, they could have restrictions or commitments on the use of remaining funds that should be classified as reserved fund balance in accordance with the BARS Manual. The County is researching the correct reporting for each fund balance and did not make corrections.
- Did not eliminate intrafund activity for custodial funds, overstating additions and deductions by \$10,769,698
- Omitted capital lease disclosures of \$1,265,267 in the notes to the financial statements

Except as noted above, the County corrected these errors. We identified other, less significant errors in the financial statements and notes to the financial statements, which management corrected.

We recommend management improve internal controls over financial reporting. Specifically, management should ensure:

- Ending cash and investments reported in the financial statements agree to reconciled bank balances at year-end
- Ending fund balances for special revenue and debt service funds are properly classified as reserved or unreserved in accordance with the BARS Manual
- The review of the financial statements and notes is effective to identify and correct errors before submitting the statements and notes for audit
- Intrafund transactions in custodial funds are eliminated at year-end for financial reporting in accordance with the BARS Manual